



Capacity Auction Enhancements

January 29, 2026

Capacity Auction Team

Welcome!

We will begin momentarily. Please ensure your microphones are muted. Thank you.

Territory Acknowledgement

The IESO acknowledges the land we are delivering today's webinar from is the traditional territory of many nations including the Mississaugas of the Credit, the Anishnawbe, the Chippewa, the Haudenosaunee and the Wendat peoples and is now home to many diverse First Nations, Inuit and Métis peoples. We also acknowledge that Toronto is covered by Treaty 13 with the Mississaugas of the Credit First Nation.

As we have attendees from across Ontario, the IESO would also like to acknowledge all of the traditional territories across the province, which includes those of the Algonquin, Anishnawbe, Cree, Oji-Cree, Huron-Wendat, Haudenosaunee and in addition to the Métis and Inuit peoples.

Welcome and Introduction

- This engagement is conducted according to the [IESO Engagement Principles](#)
- Today's session will be recorded and available for viewing online
- All documents associated with this engagement can be found on the IESO's [Capacity Auction Enhancements](#) engagement webpage

Participation

- For questions and comments click on the “Raise hand” icon (hand symbol) at the top of the application window. This will indicate to the host you would like to speak
- To unmute audio, click on the microphone icon at the top of the application window
- Audio should be muted when not asking a question
- Connection issues contact engagement@ieso.ca or Microsoft Office Support

Today's Discussion

- The IESO is reconnecting with stakeholders to continue engagement activity on Capacity Auction (CA) enhancements and will also share insights from the recent auction held in Q4 2025.
- Recent discussions between stakeholders and the IESO have identified the need to investigate and holistically consider market observations and issues to develop a path forward.
- We will discuss recent market observations, including issues impacting Hourly Demand Response (HDR) resource performance in the renewed market.

Agenda

- 2025 Capacity Auction Results
- Publication Process for Target Capacity
- 2025 Market Observations
- Recent Stakeholder Feedback
- HDR Objective Statement
- Summary and Next Steps

2025 Capacity Auction Results

2025 Capacity Auction Results

2025 Capacity Auction cleared:

- **1,832.8 MW at \$645.24/MW-business day** for the summer 2026 obligation period
- **1,125.3 MW at \$725.31/MW-business day** for the winter 2026/2027 obligation period

Compared to 2024 Auction results:

- An increase in price in both obligation periods
- A decrease in capacity in both obligation periods, with both clearing close to the target capacity

- The 2025 auction results appear different from previous years, reflecting a combination of short-term supply dynamics and an increase in the auction's target capacity.
- Several factors contributed to this change in supply:
 - No imports cleared from New York (loss of approximately 200-300 MW)
 - Approximately 200 MW of supply from Ontario-based generators shifting away from the Capacity Auction to Medium-Term (MT) 2 contracts, and
 - The remaining available supply was not sufficient to fill the gap left by these two factors

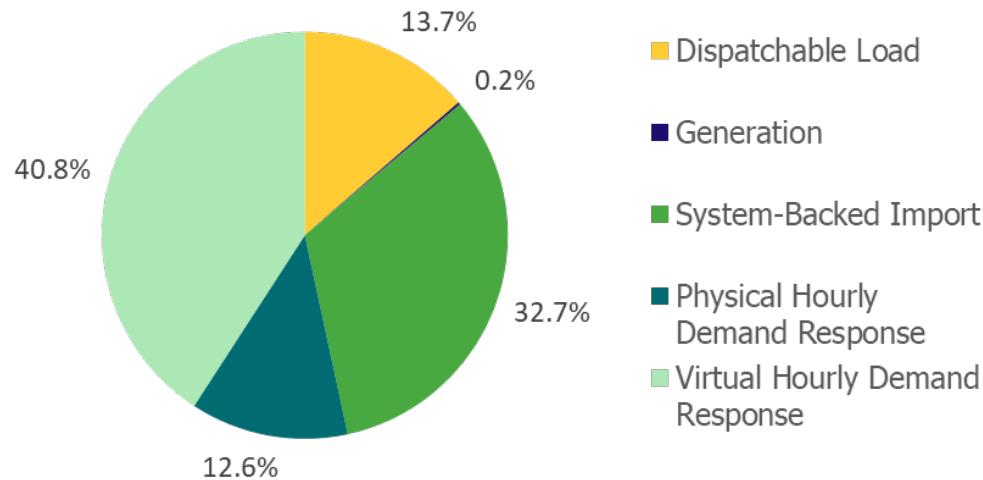
- These factors, combined with a 200 MW increase in the target capacity, brought the available supply in the auction very close to the target capacity, which in turn put upward pressure on the clearing price in the auction.
- With electricity demand increasing, coupled with additional pressure on supply due to nuclear refurbishments – namely, the Pickering “B” units – this annual auction is critical in helping support reliability in Ontario’s system as grid conditions change from season to season.
- With the capacity cleared through this auction, Ontario’s electricity system is projected to remain reliable for the next 18 months.

2025 Capacity Auction Results – Key Insights

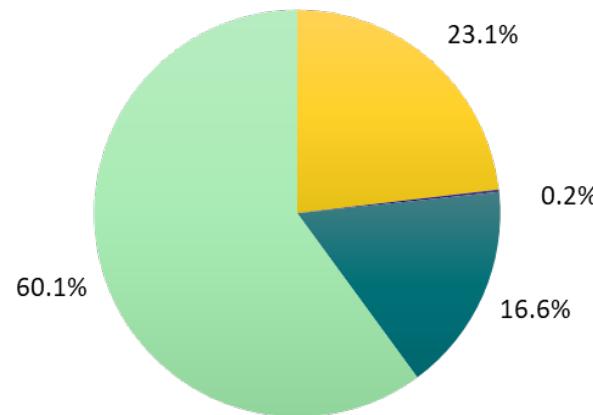
- Virtual hourly demand response resources make up the largest share of capacity cleared by resource type.
- System-backed imports saw the greatest growth in cleared capacity, with a 50% increase in summer compared to 2024, largely enabled by an increase in the import limit.
- The resource mix shifted with a loss of generator-backed imports and reduction in internal generation resource participation compared to the 2024 auction.
- This year was the first in which a performance adjustment factor (PAF) was applied in both the summer and winter obligation periods. Due to positive capacity test performance, the PAF de-rated only a modest number of resources' qualified capacity.

Total Capacity Cleared by Resource Type (%)

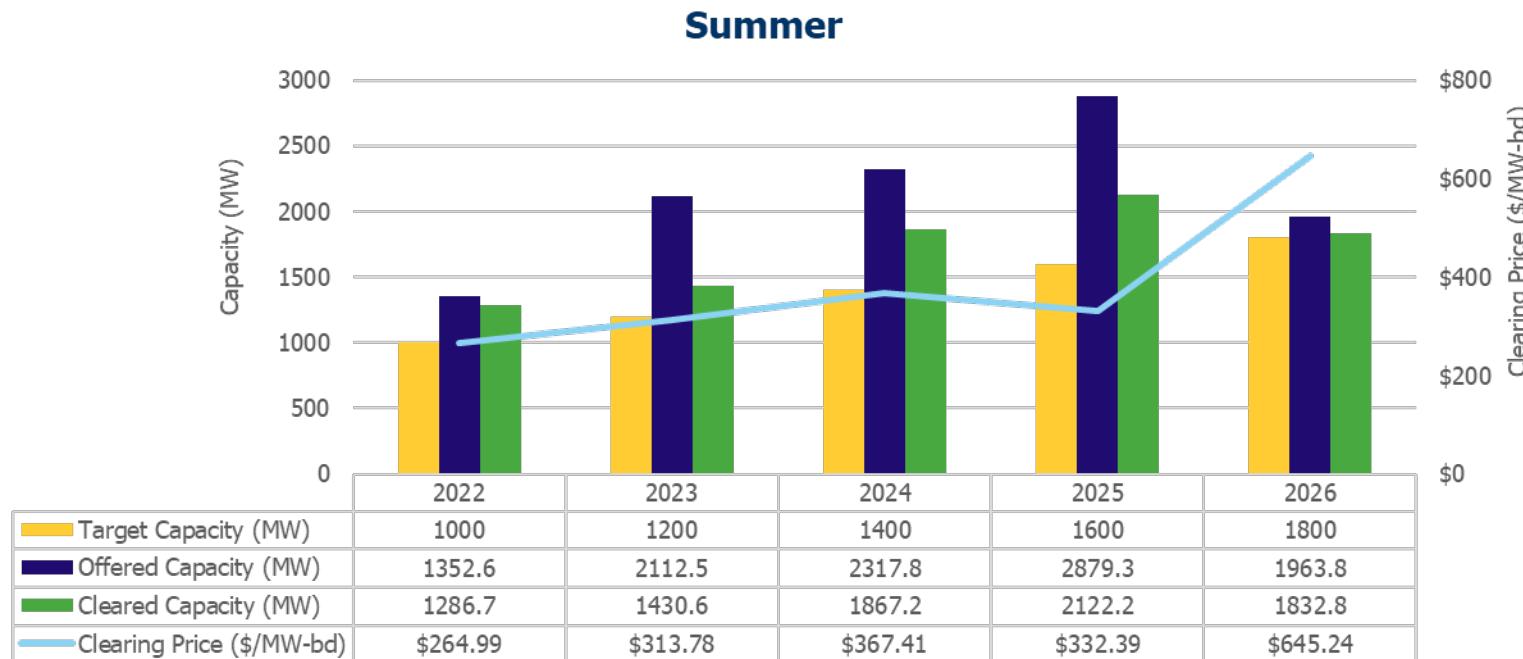
Summer



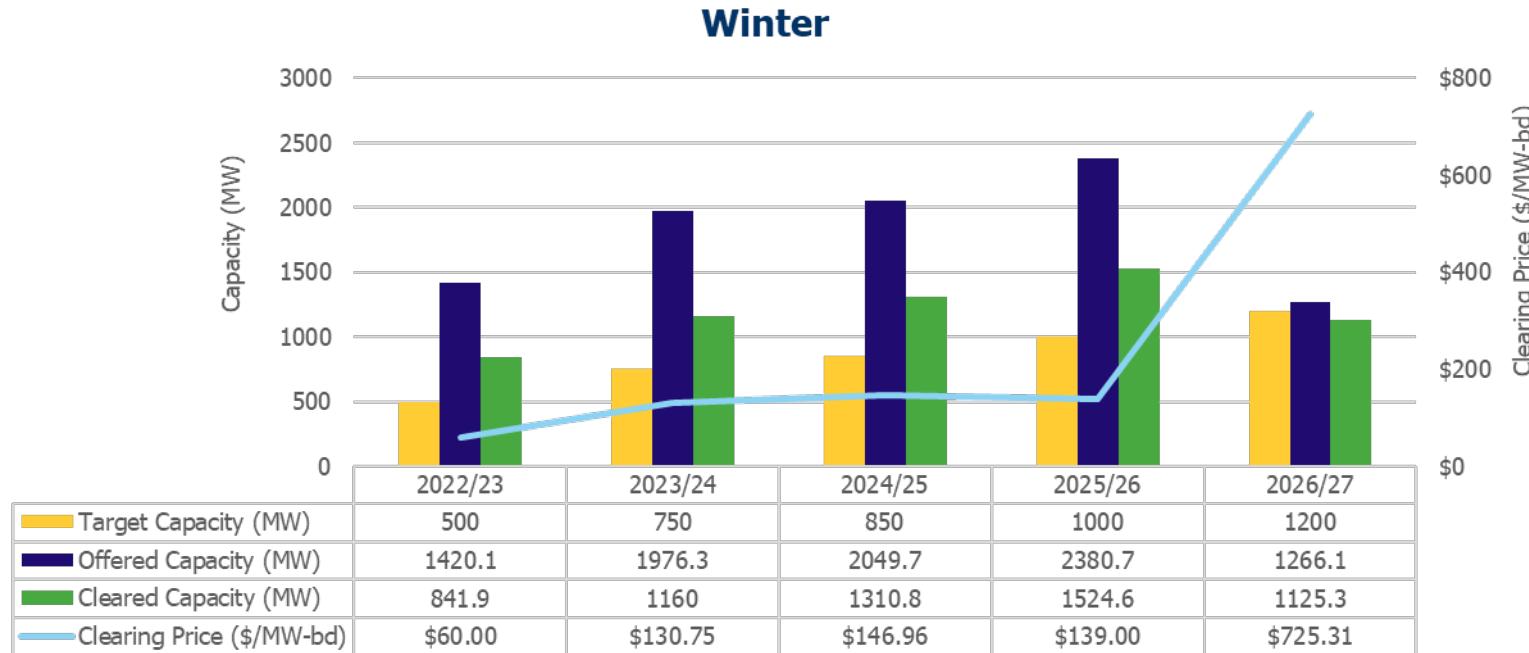
Winter



Year-Over-Year Comparison: Summer



Year-Over-Year Comparison: Winter





Publication Process for Target Capacity

Background:

- The Capacity Auction target capacity has been included in the Annual Planning Outlook (APO) published in spring each year to give an early indication to prospective participants. It has also been published in the Pre-Auction Report per the Market Rules.

Publication Process:

- Beginning in 2026, the process will be adjusted to balance early visibility of Capacity Auction targets with the ability to adjust targets if system needs evolve.
- Preliminary (non-binding) targets will be included in the APO in spring, with the firm target capacity published in the Pre-Auction Report in summer.

Publication Process for Target Capacity

2/2

- The firm target capacity may be incrementally increased, or decreased, relative to the preliminary target capacity that was included in the APO if more recent information becomes available that warrants an adjustment.

Rationale for Change:

- This change provides additional flexibility for the IESO to adjust the target in response to issues/uncertainties that may emerge after the APO is published.
- It is anticipated that these changes will have limited impacts on stakeholders and will provide a net benefit to the IESO and Ontario ratepayers by mitigating risks associated with Capacity Auction target setting and issuance.



2025 Market Observations

Market Observations: Summer 2025

- Renewed market launch in May 2025 created new market mechanisms, i.e., Day-Ahead Market, enhanced unit commitment, and locational pricing.
- Sustained hot weather in summer 2025 placed high demands on the system.
 - Summer 2024's peak demand was 23,852 MW, while summer 2025 had seven peak hours well above this, from 24,006 - 24,862 MW
 - NERC Energy Emergency Alert 1 (EEA-1) advisory notices were issued more frequently in summer 2025 compared to recent summer periods.

Market Observations: Summer and Fall 2025

- High demand from sustained hot summer weather led to high prices as more expensive resources and imports were required. Prices were more volatile and very sensitive to small changes in supply, as supply was operating near capacity.
- During fall 2025, occasional price volatility occurred as planned resource outages reduced available supply ahead of winter.
- The renewed market is producing intuitive prices. However, LMP prices do not tell the whole story and cannot always be used to determine if an offer/bid should or should not have cleared the market at their submitted prices. ⁽¹⁾
- (1) As discussed in the November 26, 2025, IESO Renewed Market Update [webinar](#)

With the conditions experienced this past summer and fall, the following observations relating to HDR resources were noted:

Activation Conditions

- Historically, HDR activations were manually triggered by the IESO during a Conservative Operating State and/or EEA-1 event.
- More recently, activations have not always coincided with a Conservative Operating State and/or an EEA-1 event and are often triggered economically based on pre-dispatch scheduling run prices exceeding \$2,000/MWh.

Activation Frequency

- Historically, HDRs were activated 2-3 times in summer and never in winter.
- HDRs were activated 10 times last summer, and 7 times so far this winter.

Activation Quantities

- Historically, all HDRs in the fleet were activated for their full bid quantity (MW) for the entire activation period (1-4 hours).
- Recently, we have sometimes seen only a portion of the HDR fleet activated, and some HDRs have received activations for partial bid amounts, and those amounts could fluctuate each hour of the activation period.

Resource Performance

- Summer 2025 HDR performance was comparable to the past two summers.
 - 16,775 MW was activated, and only 12,153 MW (72%) was delivered
 - Capping delivery at the activation amount, only 10,702 MW (64%) was delivered



Recent Stakeholder Feedback

- Since the renewed market launched, Capacity Auction HDR stakeholders have shared a number of questions, observations, and concerns with the IESO.
- Recent discussions between stakeholders and the IESO have identified the need to develop a path forward; to review HDR resource participation challenges and develop potential solutions for enhanced participation models.
- Potential solutions will need to ensure system reliability and ratepayer value while also balancing stakeholder/resource considerations and the long-term success of the Capacity Auction as a short-term balancing mechanism within the IESO's Resource Adequacy Framework.

- Recent stakeholder feedback has identified the following issues:
 - Stand-by notices have increased significantly, exceeding the number of notices previously contemplated under the IESO's review of the standby trigger threshold, and are no longer reasonably signalling the likelihood of being activated.⁽²⁾
 - More frequent HDR activations in both summer and winter periods are potentially causing resource 'fatigue' and/or risking loss of HDR resources/contributors.
- (2) [IESO Design Memo 4.0 - HDR Standby Trigger Review](#)

- Recent stakeholder feedback has identified the following issues:
 - Reasons for HDR activations, and payment eligibility, are unclear in the absence of an EEA-1 and/or Conservative Operating State advisory notice(s).
 - Some HDRs operate on an all-or-nothing basis, with limited or no ability to follow dispatch instructions for partial activation of their bid amount.



HDR Objective Statement

Path Forward

- As discussed in the earlier slides, the IESO has made some key market observations since the renewed market launched in May 2025.
- In addition, HDR stakeholders have raised a number of key issues related to the efficient and effective operation of their CA resources.
- There is now a need to take a step back and look at the HDR participation model more holistically considering these recent experiences and observations.
- As a first step, we are seeking feedback on the HDR objective statement outlined later in this section.

IESO Requirements:

- The IESO is seeking more certainty in the capacity procured.
 - Performance and availability of HDR resources is critical to ensure reliability in increasingly frequent periods of tight supply conditions.
 - HDRs have historically underperformed relative to capacity obligations on which they receive availability payments.
 - During emergency conditions, when the IESO control room has heightened difficulty maintaining a supply and demand balance, HDR performance according to dispatch is critically important.

Resource Requirements:

- HDR stakeholders have told the IESO that they want transparency, and operational certainty about the following:
 - Emergency payment eligibility
 - Frequency of stand-by notices
 - Frequency and reasons for activations
 - Partial activations

HDR Objective Statement:

- HDR resource enhancements should help achieve the following objectives:
 - Increase operational certainty for the IESO in the delivery of capacity that is called on. Specifically, more reliable performance of HDR resources that are activated.
 - Provide greater transparency and operational certainty for HDR resources.



Summary and Next Steps:

Summary of Today's Discussion

- The IESO appreciates the constructive feedback and recognizes that HDR resources are seeking timely enhancements to address the issues identified.
- Enhancements enable the auction to evolve, but they take time to implement effectively, after robust stakeholder engagement.
- Ongoing stakeholder input on enhancement details, scoping, and prioritization will support consideration of both near and longer-term enhancements and continuous improvement of the auction.

- The IESO is seeking feedback on the HDR objective statement.
- The IESO will continue discussions to prioritize HDR issues and develop and implement a program of incremental enhancements for the next three auctions.
- The three-year enhancements program will also include additional non-HDR enhancement items that were identified and prioritized in previous engagements.

- The IESO anticipates holding another engagement in Q1 of 2026 to discuss 2026 enhancements.
- Achievable 'quick wins' will be the primary focus for Capacity Auction 2026 due to the limited time available to design and implement changes prior to the upcoming 2026 auction.

Request for Feedback

- The IESO will consider all input on this engagement and a feedback form is posted on the [Capacity Auction Enhancements](#) engagement webpage.
- Feedback is due by February 12, 2026.
- Please contact engagement@ieso.ca if you have questions following this session.

Disclaimer

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